PAYDAY LENDING MARKET INVESTIGATION

Summary of hearing with MYJAR held on 18 March 2014

Background

1. MYJAR was founded in 2008 and began lending in March 2009. In October 2010 it became part of Txt Holdings Limited. It operated within the UK and was a short-term online lender. Its aim was to build a business that offered an alternative, positive experience to that of payday lenders as portrayed in the media. It hoped to build scale through a combination of its service, generous forbearance polices and by offering loans at a fair price resulting in significantly thinner but more sustainable margins than its peer group.

2. [✂]

3. MYJAR said that its profit in 2012 was not necessarily reflective of the actual performance for that financial year. This was due to the fact a large number of borrowers were on-boarded in the last few months of 2012, which meant that bad debt provisions, which were spread over six months, were split across 2011/12 and 2012/13 financial year ends. This meant that a better view of the business performance was achieved by looking at earnings over a longer period. MYJAR believed that the annual profitability of the payday loan sector was to some degree distorted due to provisioning and accounting treatments of bad debts.

4. The profitability of MYJAR for the year ended 2014/15 was likely to be adversely affected by the regulatory changes. Specifically the concerns focused on an increase in bad debts caused by a reduction in continuous payment authority (CPA) to two unsuccessful attempts.

5. TxtLoan had rebranded to MYJAR. The rebrand was in part to move away from the impression that the main delivery channel was via mobile phones and text messages, but also to create a brand that expressed openness, transparency and simplicity. The aim was to build a longer-term relationship with its customer base by offering a wider product range that was not restricted to just lending. MYJAR operated lean margins to achieve scale and it was planned that the business products would develop over time as people saw that it offered a high-quality, customer-centric and transparent service.

6. New account applications were all online. Customers were able to request loans online, by SMS and by telephone. The company's operations centre was in Estonia, where around 40 of the 80 staff employed worked in the customer services contact centre.

7. MYJAR had initially offered a 7- and 15-day loan product, before it moved to its current 18-day loan product. Initial loan size was always £100, increasing to £500 in £100 increments for reliable repeat customers. Loans cost £20 per £100 borrowed. The new 18-day loan product was customer driven and reflected MYJAR's experience of customers' repayment behaviour. One impact of the longer term of the loan was that volumes had fallen, with customers borrowing less frequently. The loan product had been designed to be simple, transparent and easy to understand and customers viewed the 18-day loan with an initial amount restricted to £100 as a product that was unlikely to lead to financial difficulties. The company did not feel the need to focus on products such as instalment loans.

8. The move from a 15- to an 18-day loan product had seen an increase in the loan fee from £17 to £20 per £100, which translated into a change from £1.13 to £1.11 per day. Consultation with customers and a review of its competitors' pricing were undertaken before the increase. The change had not greatly affected MYJAR's revenue model. [✄]

9. Currently 88% of loans were to repeat borrowers, but MYJAR did not overly attempt to re-engage its repeat customer base and believed this was a decision they should make of their own volition.

10. In the financial year ended 2014, MYJAR had a loan acceptance rate of [✄]%, which was very similar to 2013.

Defaults

11. MYJAR had improved its underwriting abilities through the accumulation of data and experience. Risk management was technology driven and more on-time recoveries were achieved.

12. MYJAR believed that one of the biggest barriers to entry in the loan market was the volume of data required to make robust underwriting decisions. This could be expensive to accumulate and the data needed to be very recent to inform loan decisions. It did not believe that the expected sharing of data by credit reference agencies in April 2014 would have a significant impact on its risk assessment analysis. The most recent data that it received from its own customers was the most informative and data from Callcredit would only complement this. Callcredit data was informative with regard to identifying the

frequency of a person's applications, but this information was readily available from ping trees.

13. The quality of MYJAR's customer base had improved and this and the lower default rates in part reflected the decision to target leads higher up the ping tree, changing the initial buying strategy which had focused on lower-ranked leads. Experience had also enabled MYJAR to adopt more sophisticated buying decisions and improved risk assessments.

14. [✄], had always frozen interest at 60 days and did not offer rollover loans. [✄] If a customer did not or could not pay, they would be blacklisted from the service. This approach had proved costly, with millions of pounds written off. Bad debts and write-offs were a huge cost of customer acquisition, but it was planned that this would lead to a loyal, returning, customer base. MYJAR also planned to achieve a reputation as a safe and responsible lender.

15. In 2013, [✄]% of MYJAR's revenues came from late fees. The 18-day loan product currently had one late fee, which was activated on day 19, when the payment was one day late. It had recently dropped a second fee, which was activated on day 30, and feedback from around 300 to 400 calls had shown that this was well received.

16. MYJAR's first product was a seven-day loan that had four fees of £25 each. The fees reflected a lack of scale at the start of the business and as this improved, it had reduced these charges. Market research was conducted to determine what customers considered a fair price, but it was important to strike a fair price for the lender and borrower.

17. Loan repayments were automated, and took place in the early hours of the day on which they were due. If a customer missed a payment, MYJAR would normally agree to waive its late fee. This would be a 'one-time' exception and would not usually be repeated.

18. Customers were sent SMS and emails three days before payment was due, stating the amount owing and the payment date. A further reminder email was sent the day before the payment date and an email was sent confirming that payment had been received. The three-day reminder was intended to prompt a customer to contact MYJAR if they felt they could not make a payment. MYJAR would reschedule the payment on an agreed date and a charge would not be incurred if the payment was made. Customers could also repay smaller amounts if they were experiencing difficulties meeting their repayment obligations.

19. If a late payment was agreed, usually within two or three days of the due date, interest would not be charged and only interest up to the time financial difficulty was expressed would be levied.

Regulatory environment

20. When the new CPA regulations come into force, lenders will be allowed to make two unsuccessful attempts at using a CPA to reclaim a repayment. It was then expected to engage with the borrower to identify the problem and get permission to try again. Partial collections using CPA will also be prohibited. Under the current merchant scheme regulations, collection could be attempted 31 times a month on a loan, which included a daily limit of three times. The general market assumption was the merchant schemes rules of 3 and 31 achieved a 10 to 15% collection success rate.

21. MYJAR believed that this shift, requiring customers to initiate payments rather than relying on the lender to take payments, would put pressure on recovery rates and send consumers into the debt collection stage a lot earlier. The possible increased overall cost to the customer, including additional late fees, was a concern for MYJAR.

22. The new regulatory environment would pose new challenges for both businesses and customers, with education needed on both sides. To offset the effects of the new regime, MYJAR had encouraged customers to initiate self-payments. It had recently started a trial that moved its customers to a system called 'self-pay', which allowed customers to select their repayment date. It was expected that this would provide learning around the reduction in the number of CPA attempts allowed and the intention was to identify the level of communication required to get customers to pay on time and ensure that they did not incur additional fees and charges.

23. MYJAR believed that some of its competitors had changed their business models as they adapted to the new regulatory environment, particularly CPAs and rollovers. One possible effect of the new rules on product development was that companies might move to instalment-based products as these could be more direct debit based. The loan periods could also extend beyond 12 months in order to avoid the CPA caps imposed on high-cost short-term credit.

Competition

24. MYJAR believed that the industry standard of a monthly loan cost of around £30 per £100 reflected the feedback companies received from customers as to what was acceptable. The figure of £1 per day compared favourably with

unauthorised overdraft fees. Given the high-risk nature of payday lending, it would be challenging to offer a lower fee.

25. [✄]

26. Customer retention was important in developing the business and in the payday loan sector the customer/lender relationship appeared quite sticky. Developing the MYJAR brand was important for stemming attrition and creating customer trust. MYJAR stressed the importance of high-quality marketing activities such as its recent Facebook Jar a Day promotion to ensure that it built a reputable brand.

27. Having improved its assessment of risk, MYJAR believed that it could now look at alternative product options. Responsible lending was a key driver in product development such as a longer-term product and slightly larger loans. Its own risk appetite and the quality of its customers would influence the options that would be considered.

28. Instalment-based products had proved very successful for some lenders, offering good volume and acceptable bad debt rates. Innovation in medium-term products was also a possibility. Negative press received by high-street bank current accounts also offered opportunities to compete against these, particularly if banking products were unbundled.

29. The underbanked customer segment that high-street banks tended to ignore represented growth areas for the payday sector. New technology, particularly mobile devices, could facilitate a new customer stream.

30. Offering faster loans was not now such a key differentiator among loan companies. It was standard practice that most lenders would make a decision very quickly, with the cash deposited in minutes. A high percentage of MYJAR's loan approvals were automated and the rest would receive additional manual reviews.

Customer acquisition

31. MYJAR spent a high percentage of its marketing budget on ping trees and affiliates, with the remainder allocated to its digital/branded channels, utilising searches by brand and pay per click. It ranked well with Google and Yahoo. Customer acquisition via mobile devices had not worked particularly well. It was also trialling television advertisements in the North-West of England and would shortly run a national campaign on Channel 4.

32. Historically, lead generators were favoured for customer acquisition, but the digital/branded channels would be used going forward, even though the cost

per customer was greater. This focus was on building the MYJAR brand, rather than just creating a transactional business, which could be achieved through ping trees.

33. MYJAR’s own audit had identified questionable practices among a broad section of ping trees it worked with. It wished to become less reliant on them as a channel of customer acquisition and it had terminated its relationship with brokers whose practices were questionable. One positive aspect of ping trees was that they did offer the opportunity to get a good overview of the customer before the lead was purchased.

34. It looked at two conversion rates in its work with ping trees. The first was the completion of application forms, which was far lower on ping trees than its own, organic sites. In this regard, the digital/branded channels had a [✂]% better customer conversion rate. The second conversion rate it took into account was the approval rate. Due to the ability to buy customers that were more likely to be approved, ping trees had higher approval rates than the organic sites.

35. [✂] A payday lender could no longer buy its own brand term on Google. Google had also stipulated that pay-per-click landing pages should have a page of information as determined by Google. Other search engines such as Bing had not adopted such a policy.

36. Bing had invested in new technology and it was a channel that MYJAR was leveraging.

37. Ping trees were also developing comparison websites for payday products, some of which had reached the testing stage. MYJAR believed that the comparison was not always transparent and it was difficult for comparison websites to compare the variety of loan products that existed. It was developing a comparison of its product with other competitors’ offerings, which it intended to publish.

Access to banking

38. Access to banking facilities [✂].

39. Banking services for payday lenders [✂].